

Message Text

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70

ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 ISO-00 AGR-20 COME-00 IO-14

CIAE-00 INR-11 NSAE-00 RSC-01 L-03 TRSE-00 STR-08

NSC-07 SS-20 DODE-00 PA-04 USIA-15 PRS-01 SP-03 SWF-02

AID-20 CIEP-02 DRC-01 /195 W
----- 019210

R 171455Z JUL 74

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 1034

INFO AMEMBASSY BRASILIA

AMEMBASSY BOGOTA

AMEMBASSY BUATEMALA

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY MANAGUA

AMEMBASSY SAN SALVADOR

AMEMBASSY LIMA

AMEMBASSY LUANDA

AMEMBASSY PANAMA

AMEMBASSY PARIS

AMEMBASSY MEXICO

AMEMBASSY SAN JOSE

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE RIO DE JANEIRO 2602

E.O. 11652: N/A

TAGS: ETRD, EAGR,BR

SUBJECT: RECENT COFFEE DEVELOPMENTS

REF: (A) RIO 2418; (B) SAN JOSE 2595, (C) MEXICO 5733; AND
(D) SAN SALVADOR 2791

BEGIN SUMMARY. ESTIMATES FOR BRAZIL'S CURRENT CROP BEING
PLACED AT 26 TO 26.5 MILLION BAGS. STOCKS AT END OF JUNE ESTIMATED
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AT 15.5 MILLION BAGS. EXPORT SALES THIS CALENDAR YEAR UNLIKELY

TO EXCEED 15 TO 16 MILLION BAGS. LOCAL TRADE BELIEVES PRODUCER COUNTRY EFFORTS TO BOLSTER NEW YORK PRICE THROUGH INTERVENTION PURCHASES APPARENTLY HAVE HAD MINIMAL OR NO EFFECT. END SUMMARY.

1. DISCUSSIONS WITH PRINCIPAL PRIVATE EXPORTERS HAVE PROVIDED FOLLOWING INFORMATION.

2. PROJECTIONS OF 1974/1975 BRAZILIAN COFFEE CROP CURRENTLY BEING HARVESTED RANGE FROM 26 TO 26.5 MILLION BAGS. BRAZILIAN COFFEE INSTITUTE (IBC) ESTIMATE HAS REPORTEDLY BEEN RAISED FROM 24.7 TO 26.4 MILLION BAGS. ONE HIGHLY KNOWLEDGEABLE OBSERVER CLAIMS THAT THESE ESTIMATES, AND PARTICULARLY THE RECENT INCREASE IN THEIR LEVELS, SUGGEST HARVEST MAY BE EVEN LARGER. STOCKS AT END OF JUNE ESTIMATED AT 15.5 MILLION BAGS, I.E., 11 MILLION IN IBC WAREHOUSES AND 4.5 MILLION IN PRIVATE HANDS.

3. BRAZILIAN EXPORTS HAVE VIRTUALLY COME TO A STOP. TOTAL SHIPMENTS FOR FIRST FIVE MONTHS OF THIS YEAR WERE 313 THOUSAND TONS COMPARED TO 409 THOUSAND TONS FOR SAME PERIOD OF 1973. IN ADDITION, CONSIDERABLE PART OF THIS YEAR'S MOVEMENT BELIEVED TO REPRESENT IBC SHIPMENTS TO ITS DEPOT IN TRIESTE RATHER THAN BONAFIDE EXPORT SALES. PRIVATE EXPORTERS EXPECT THEIR SALES TO REMAIN EXTREMELY SMALL FOR AT LEAST NEXT FEW WEEKS. THEY ATTRIBUTE SMALL SALES TO HIGH COFFEE STOCKS ACCUMULATED BY CONSUMER NATIONS. U.S. STOCK ACCUMULATIONS CONSIDERED ESPECIALLY LARGE BECAUSE OF EARLIER THREAT OF PORT STOPPAGE. NOW THAT STRIKE THREAT HAS BEEN REMOVED, U.S. BUYERS EXPECTED TO REDUCE STOCK LEVELS, ESPECIALLY GIVEN HIGH STORAGE COSTS CAUSED BY PRESENT INTEREST RATE LEVELS. RECENT MEASURE BY IBC TO REDUCE EXPORT TAX (REPORTED REF A) DESIGNED TO OFFSET 8 CENTS PER POUND DISCOUNT PREVIOUSLY INSTITUTED BY IBC. MEASURE NOT EXPECTED AFFECT EXPORT VOLUMES. PRIVATE EXPORTERS BELIEVE BRAZIL'S TOTAL SHIPMENTS THIS CALENDAR YEAR UNLIKELY TO EXCEED 15 TO 16 MILLION BAGS.

4. LOCAL TRADE CONFIRMS THAT CENTRAL AMERICANS AND MEXICO HAVE CEASED EXPORT SALES IN EFFORT TO BOLSTER MARKET. ALTHOUGH PRESS ACCOUNTS CLAIM BRAZIL HAS JOINED THIS EFFORT, PRIVATE TRADERS ASSERT THAT IBC WOULD AUTHORIZE EXPORT IF CURRENT MARKET LIMITED OFFICIAL USE

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PRICE IS OBTAINED. TRADE GENERALLY CONCURS THAT ATTEMPT BY BRAZIL AND "OTHER MILD" PRODUCERS TO SUPPORT NEW YORK PRICES BY INTERVENTION HAVE NOT SUCCEEDED. GROUP HAS REPORTEDLY BOUGHT APPROXIMATELY ONE MILLION BAGS THROUGH SALVADORAN REPRESENTATIVE OFFICE IN NEW YORK. APPARENTLY, HOWEVER, MANY OF THESE PURCHASES WERE FOR CURRENT SHIPMENTS, NOTABLY FROM MEXICO, RATHER THAN PURCHASES OF EXISTING NEW YORK STOCKS. BRAZIL APPARENTLY HAS CHARTERED VESSEL TO MOVE COFFEE FROM NEW YORK TO TRIESTS,

AND WILL POSSIBLY MOVE SOME TO BRAZIL. GENERAL CONSENSUS EXISTS THAT CAFE MUNDIAL MEETING IN PARIS PRODUCED NO FIRM DECISION. GROUP APPARENTLY DECIDED TO AWAIT DEVELOPMENTS AND TO MEET AGAIN IN RIO DE JANEIRO DURING MID-AUGUST.

5. IBC HAS ANNOUNCED ITS INTENTION TO STOP SELLING COFFEE AT SUBSIDIZED PRICE FOR DOMESTIC CONSUMPTION. VOLUME OF SUBSIDY SALES FOR JULY HAD ALREADY BEEN PROGRAMMED AT 50 PERCENT OF PREVIOUS LEVEL, REDUCING THEM TO ABOUT 30 PERCENT OF TOTAL MONTHLY DOMESTIC CONSUMPTION. ROASTERS, AND PARTICULARLY LARGE ONES, BEING SERIOUSLY SQUEEZED BETWEEN PRODUCER PRICES AND CONTROLLED RETAIL PRICES. LATTER WILL PRESUMABLY BE PERMITTED TO MOVE FREELY WHEN IBC TERMINATES SUBSIDY SALES. IBC DECISION TO DO SO MOTIVATED BOTH BY ITS DESIRE TO CONSERVE ITS STOCKS AND BY DESIRE TO SUPPORT PRODUCER PRICES. LATTER HAVE FALLEN FROM HIGH OF APPROXIMATELY CR\$410 PER BAG TO 60 KILOS IN JANUARY TO CURRENT LEVEL OF ABOUT CR\$335. GOVERNMENT HAS INCREASED GUARANTEED PRICE FOR PRODUCERS, BUT NET GUARANTTTED PRICE AMOUNTS TO APPROXIMATELY CR\$300 PER BAG AND THUS IS STILL WELL BELOW MARKET QUOTATIONS.

6. COMMENT: IBC APPARENTLY UNDER SOME PRESSURE TO INCREASE VOLUME OF EXPORTS IN ORDER TO EASE BRAZIL'S BALANCE OF PAYMENTS PROBLEM. AT SAME TIME, IT FEARS THAT A SIGNIFICANT INCREASE IN EXPORTS WOULD SERIOUSLY WEAKEN INTERNATIONAL PRICE LEVEL, PERHAPS GENERATING DOWNWARD SPIRAL AS PRODUCERS COMPETE AGAINST EACH OTHER FOR AVAILABLE SALES. SHARP CRITICISM OF BRAZIL'S FAILURE TO EXPORT LARGER VOLUME THIS YEAR HAS GIVEN RISE TO SPECULATION THAT IBC MAY RE-INTRODUCE SPECIAL DEALS. IT IS MORE LIKELY, HOWEVER, THAT IBC WILL NOT TAKE A MAJOR DECISION ON THIS QUESTION UNTIL IT KNOWS THAT BRAZIL WILL NOT SUFFER ANOTHER FROST THIS YEAR. A FROST WOULD UNDOUBTEDLY RAISE PRICES SHARPLY, PERMITTING BRAZIL TO RECOVER EXCHANGE EARNINGS WHICH OTHERWISE WILL BE LIMITED OFFICIAL USE

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LOST BECAUSE OF LOW VOLUME OF EXPORTS.
MILLER

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Message Attributes

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Capture Date: 01 JAN 1994
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